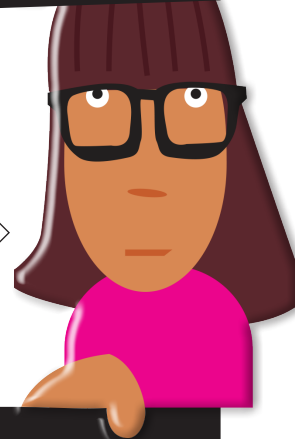


Tax 101 Activity 2

# WHO, WHAT, HOW AND WHY

## Fact sheet



Different types of taxes affect taxpayers in different ways.

**How do we work out what is a fair amount of tax to pay?**

- Is it **fair** that everyone, regardless of their income and expenses, should pay the same amount of tax?
- Is it **fair** if those who earn the most pay the most tax?
- What is a **fair** amount of tax for people who use community resources?

### TYPES OF TAXES AND CHARGES

Taxes can only be collected if a law has been passed to permit their collection. The Commonwealth of Australia Constitution Act established a federal system of government when it created the nation of Australia in 1901. It distributes law-making powers between the national government and the states and territories.

Each level of government imposes different types of taxes and charges. During World War II the Australian Government took over all responsibilities for income tax and it has remained the major source of federal tax revenue ever since.

#### Levels of government and their taxes

Federal (Australian/Commonwealth)	State or territory	Local
Income tax	Payroll tax	Property rates
Medicare levy	Stamp duty	Rubbish disposal charges
Company tax	Land tax	Building permits
Goods and services tax (GST)	Special purpose levies	Fines
Fringe benefits tax (FBT)	Taxes on gambling	Animal licences for pets
Capital gains tax (CGT)		
Customs duty on imports		
Excise on fuels, tobacco and other goods		
Departure tax at airports		
Petroleum resource rent tax		
Special purpose levies		

Tax information is recorded on a wide variety of documents. Examples include:

- ▶ your payslip from work, which will show how much income tax has been deducted from your pay
- ▶ a sales invoice from a clothing store, which includes GST
- ▶ a rate notice for your family home
- ▶ an invoice or receipt for sale of a motor vehicle
- ▶ a pet registration receipt.

### TAX STRUCTURES

There are three tax structures used in Australia:

- ▶ **Proportional taxes:** the same percentage is levied, regardless of the level of income. Company tax is a proportional tax as the same rate applies for all companies, regardless of the profit earned.
- ▶ **Progressive taxes:** the higher the income, the higher the percentage of tax paid. Income tax for individuals is a progressive tax.
- ▶ **Regressive taxes:** the same dollar amount of tax is paid, regardless of the level of income. The departure levy on passengers at airports is a regressive tax.

Some community organisations are **exempt** from income tax and some low-income individuals do not have to pay tax.

Some people argue that regressive taxes are unfair because they charge the same amount whatever a person's income or capacity to pay. Other people argue that this is not necessarily so, because a regressive tax may be levied on an item bought only by wealthier taxpayers. This is the case, they say, with the luxury tax on more expensive vehicles.

Some taxes **discourage consumption** of specific goods or services, for example taxes on tobacco and alcohol. Fuel taxes are designed to **encourage** people to use fuel-efficient vehicles and equipment.

Other taxes ensure people contribute towards government services such as collecting the garbage, maintaining roads and enforcing the speed limits.

When considering a tax, an important decision has to be made as to whether the type of the tax will be proportional, progressive or regressive.

# TASK 1

## TYPES OF TAXES

### Worksheet

#### YOU WILL:

- ▶ correctly use and interpret terminology about different types of taxes
- ▶ identify and classify a range of different taxes that people pay
- ▶ analyse statistical data representations to make conclusions about the effects of different types of taxes on taxpayers

#### YOU WILL NEED:

- ▶ *Fact Sheet: Tax – Who, what, how and why*
- ▶ *Answer sheet: Type of taxes*

#### TEST YOUR KNOWLEDGE

1. **Read** *Fact Sheet – Tax: Who, what, how and why*. Highlight or circle new terms and important ideas about tax.
2. Tax information is recorded on a wide variety of documents. **Identify** which level of government would collect the tax from these five documents? (federal, state or territory, local)

	Federal	State/Territory	Local
Your payslip from work, which will show how much income tax has been deducted from your pay			
A sales invoice from a clothing store, which includes GST			
A rate notice for your family home			
An invoice or receipt for sale of a motor vehicle			
A pet registration receipt			

#### Proportional tax

The same percentage is levied, regardless of the level of income. Company tax is a proportional tax as the same rate applies for all companies, regardless of the profit earned.

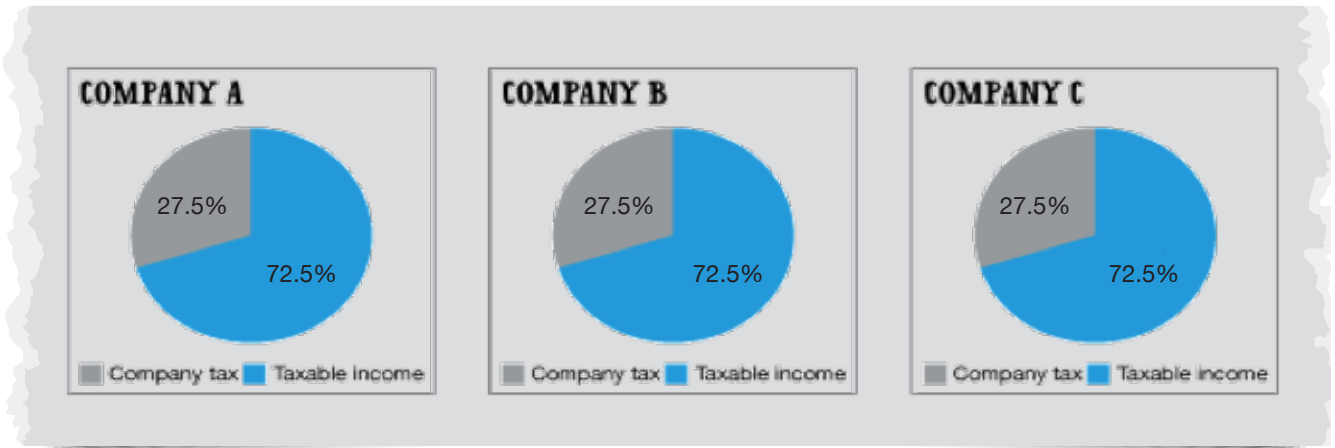
#### Company tax

**Explore** the proportional tax paid by three companies on their taxable income. The data in Table 1 shows the tax paid by companies on their taxable income. Taxable income is what is left when assessable income has been reduced by all allowable deductions.

Table 1

Company tax	Company A	Company B	Company C
Taxable income (\$)	20,000	100,000	300,000
Company tax (\$) at the same rate at 27.5%	5,500	27,500	82,500

Examine the charts showing company tax information. Choose ONE answer for the questions:



3. What happens to the tax slice on the pie graph as the companies make more money?
  - The proportion increases.
  - The proportion decreases.
  - The proportion stays the same.
4. What happens to the amount of tax paid as the companies make more money?
  - The amount of tax paid increases.
  - The amount of tax decreases.
  - The amount of tax stays the same.
5. Why do you think the government requires companies to pay a higher amount of tax as their profit increases even though the rate of tax is the same for all companies?

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**Goods and services tax (GST)**

Another example of a proportional tax structure is the goods and services tax (GST). The GST rate is set by the Australian Government at 10% which is added to the cost of most goods and services. This means that 1/11th of final sale price is GST.

6. **Work out** the amount of GST that would be charged on the following items.

Item purchased	Cost of item (\$)	Cost with GST
Toy truck	20	
Concert ticket	150	
Camera	1,000	
Refrigerator	3,000	



Go online

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## Progressive tax

The higher the income, the higher the percentage of tax paid.

The activity below is based on an example of a progressive tax structure. Table 2 shows the amount of tax paid by four taxpayers who have different levels of income.

**Table 2**

	Taxpayer A	Taxpayer B	Taxpayer C	Taxpayer D
Taxable income (\$)	10,000	35,000	50,000	95,000
Income tax (tax paid to nearest dollar)	0	3,192	7,797	22,782
Tax as percentage of taxable income	NA	9.1%	15.6%	24%

Choose ONE answer for the question below:

7. What happens to the rate or proportion of tax paid as a person earns a higher income?
- The proportion stays the same.  
 The proportion decreases.  
 The proportion increases.
8. Personal income tax is an example of a progressive tax in Australia. It provides a major source of revenue for the Australian Government. Why do you think governments introduced and retain a progressive income tax structure?

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## Regressive tax

The same dollar amount of tax is paid, regardless of the level of income.

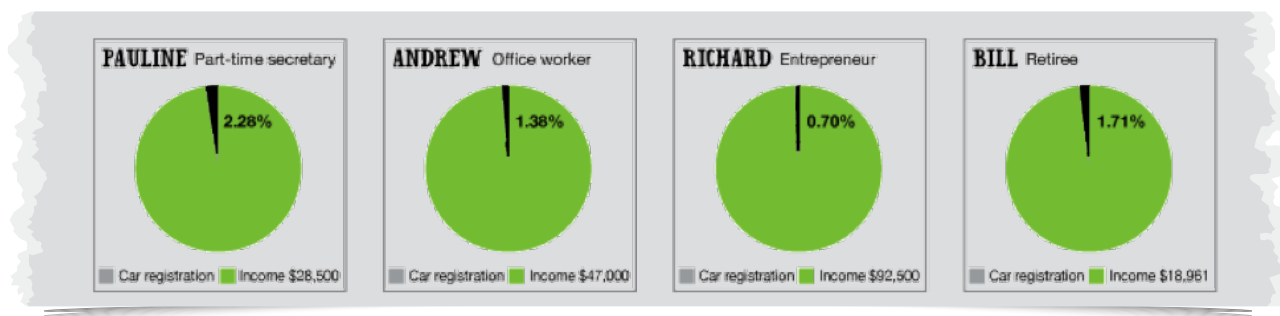
**Study** the four examples that illustrate how a regressive tax works and affects people:

Car registration fees are a type of tax, which is regressive. Four friends must all pay their annual car registration fee of \$650 in the same month. Table 3 outlines each person's circumstances. This regressive tax costs each person the same, except for Bill who is retired, because the car registration authority charges retirees half the required tax amount.\*

**Table 3**

	Pauline	Andrew	Richard	Bill
Circumstances	Part-time secretary	Office worker	Entrepreneur	Retiree
Total annual income	\$28,500	\$47,000	\$92,500	\$18,961
Car rego	\$650	\$650	\$650	\$325
As a percentage of their income	2.28%	1.38%	0.70%	1.71%

While Pauline, Andrew and Richard pay the same registration fee, this fee is a different percentage of their income, depending on how much they earn. The charts show this as percentages:



**Observe** what happens to the tax slice as the charge becomes a smaller proportion relative to the taxpayer's income.

## TEST WHAT YOU HAVE LEARNED

Choose ONE answer for the questions below:

9. Vehicle registration fee is the dollar amount paid to state or territory government to register your vehicle. What type of tax is this?
  - Progressive
  - Regressive
  - Proportional
10. Departure tax on overseas travellers is the dollar amount of tax paid by people leaving Australia for overseas. What type of tax is this?
  - Progressive
  - Proportional
  - Regressive
11. Goods and services tax (GST) is a 10% tax levied on the supply of most goods or services consumed in Australia. What type of tax is this?
  - Proportional
  - Progressive
  - Regressive
12. Customs duty is tax of a certain percentage of value of goods imported into Australia. What type of tax is this?
  - Progressive
  - Regressive
  - Proportional
13. Personal income tax is the tax paid by persons on their taxable income. What type of tax is this?
  - Regressive
  - Proportional
  - Progressive
14. Medicare levy is a tax of a set percentage paid by taxpayers to cover some of the cost of the public health system. What type of tax is this?
  - Progressive
  - Proportional
  - Regressive

\* Note: This example of a regressive tax concentrates on examining the main impact of the tax, and a lot of detail has been simplified and removed. It does not invalidate the conclusions we can draw from the example.

Tax 101 Activity 2: Who, what, how and why

Years 7-10

# TASK 2 TYPES OF TAXES REVISITED – WHAT'S FAIR?

## Worksheet

### YOU WILL:

- ▶ organise information to convey understanding about types of taxes and their effect on taxpayers
- ▶ informally debate with others about the fairness of some taxes
- ▶ make conclusions about the role of fairness in the design of tax

### APPLY YOUR KNOWLEDGE

With your group:

- To do Task 2, refer to *Fact sheet: Tax – Who, what, how and why* and your notes on *Worksheet: Types of tax*.
- Create** a diagram or representation that shows information about the three types of taxes. Show:
  - ▶ types of tax
  - ▶ definitions of types of tax
  - ▶ examples of types of tax
  - ▶ how a type of tax affects the proportion of tax paid by taxpayers.
- Display** your representation for class viewing.
  - ▶ Be ready to be randomly chosen to explain your representation.
  - ▶ Seek feedback from your audience about the accuracy of your group's information and the usefulness of the representation.

### DEVELOP CONCLUSIONS

What's fair about different taxes?

With your group:

- To reach some **conclusions** about the role of fairness in the design of tax:
  - ▶ **choose** an ethical tax topic
  - ▶ **discuss** how fairness is a factor in the design of a tax
  - ▶ be prepared to be randomly chosen to **share** your group's conclusions.

### YOU WILL NEED:

- ▶ *Fact Sheet: Tax – Who, what, how and why*
- ▶ *Answer sheet: Task 2 - Types of taxes revisited – what's fair?*
- ▶ large sheet of paper



#### Ethical tax topic 1:

Which groups are 'tax-exempt'? Why?

Which individuals do not have to pay tax? Why?

What factors might be used to determine whether an individual or group of people may not have to pay tax?

#### Ethical tax topic 2:

Why do some people argue that regressive taxes are unfair while others say they are fair?

#### Ethical tax topic 3:

What taxes discourage consumption of specific goods and services?

What taxes are designed to encourage behaviour?

Do you think such management of public behaviour is acceptable?

#### Ethical tax topic 4:

Why do you think there is such a variety of taxes and types of taxes in Australia?

Should the tax system be simplified?

Would it be easier to have one type of tax only?

#### Ethical tax topic 5:

What is the fairest type of tax?

For who?

Why do you think this?

# EVALUATE POINTS OF VIEW

## How fair are different taxes?

Independently:

5. **Reflect** on the different points of view you have gained about the fairness of taxes.
6. Now, consider some issues on your own. Use the graphic organiser below to **evaluate** the factors associated with the fairness of three taxes. Provide your own third example.

